

**OIL & GAS DOCKET NO. 7B-0237703**

---

**COMMISSION CALLED HEARING ON THE COMPLAINT OF RICHARD W. JONES AND JERRY R. JONES TO SHOW CAUSE WHY VENTEX OPERATING CORP. IS NOT ENTITLED TO PRODUCE THE YOUNG LEASE, WELL NO. 1, CASADY (STRAWN) FIELD, TAYLOR COUNTY, TEXAS, AS PERMITTED**

---

**APPEARANCES:**

**FOR COMPLAINANTS:**

Richard W. Jones  
Jerry R. Jones

**COMPLAINANTS:**

Richard W. Jones  
Jerry R. Jones

**FOR RESPONDENT:**

Philip Whitworth  
David Skidmore

**RESPONDENT:**

Ventex Operating Corp.

**PROPOSAL FOR DECISION**

**PROCEDURAL HISTORY**

**DATE OF ORIGINAL COMPLAINT:**

August 8, 2003

**DATE OF NOTICE OF HEARING:**

February 6, 2004

**DATE OF HEARING:**

March 19, 2004

**HEARD BY:**

James M. Doherty, Hearings Examiner  
Margaret Allen, Technical Examiner

**PFD CIRCULATION DATE:**

April 20, 2004

**STATEMENT OF THE CASE**

This is a Commission called hearing to consider the complaint of Richard W. Jones and Jerry R. Jones ("Jones brothers"), owners of the executive rights to 75% of the mineral interest in the Young Lease in Taylor County, Texas, concerning the Ventex Operating Corp. ("Ventex") Young Lease, Well No. 1, Casady (Strawn) Field, in Taylor County. The Jones brothers asserted that: (1) the Commission should

recognize and approve a proration unit for the Young No. 1 well conforming to the 40-acre drilling unit shown on the plat submitted with the Form W-1 (Application for Permit to Drill, Deepen, Plug Back, or Re-Enter) for the well filed with the Commission on October 31, 1996; (2) the Commission should find that the 40-acre proration unit for the Young No.1 as represented on the proration plat filed with the Commission on October 22, 1999, violates the maximum diagonal rule in special field rules adopted for the Casady (Strawn) Field; (3) in the alternative, if the Commission should find that the 40-acre proration unit for the Young No. 1 as represented on the proration plat conforms to Commission rules, the Commission should require Ventex to file a Form P-12 (Certificate of Pooling Authority); and (4) the Commission should find that field rules for the Casady (Strawn) Field were adopted without lawful notice to the Jones brothers.

After issuance of proper notice, a hearing was held on March 19, 2004. The Jones brothers and Ventex appeared and presented evidence. A plat for the Young Lease which includes delineation of the proration units for the Ventex Young No. 1 and the Ventex Reynolds Nos. 1 and 2 is attached to this proposal for decision as Appendix 1.

### **DISCUSSION OF THE EVIDENCE**

#### **Jones Brothers' Evidence and Position**

The Jones brothers claimed that the only Commission approved plat for the Young No. 1 well is the plat showing the 40-acre drilling unit for the well which was submitted with the Form W-1 application for a drilling permit for the well filed on October 31, 1996. This drilling unit consisted of 40 acres out of the southeast quarter of Section 26 of Block 18 of the T & P RR. Co. Survey, in Taylor County.

After special field rules were adopted for the Casady (Strawn) Field on September 14, 1999, Ventex filed a plat showing a 40-acre proration unit for the Young No. 1 well consisting of approximately 37 acres in Section 26 and approximately 3 acres out of a 40-acre tract in Section 21, in Block 18 of the T & P RR. Co. Survey, Taylor County, Texas. The Jones brothers are dissatisfied with this 40-acre proration unit because as of July 15, 2003, Ventex released 300 acres leased from the Jones brothers, retaining only 60 acres consisting of the 40 acres assigned to the proration unit of the Young No. 1 well and 20 acres assigned to the pooled unit for the Reynolds No. 2 well. As a result, the Jones brothers have an unleased mineral interest in approximately 37 acres out of the 40 acres in Section 21 and asserted that Ventex included 3 acres out of this same 40 acres in the proration unit for the Young No. 1 well only in the interest of preventing the Jones brothers from drilling another well on the productive portion of the Section 21 lands.

The Jones brothers argued that there is no Commission record that the proration unit for the Young No. 1 well was ever approved by the Commission, and the Commission should recognize the 40-acre drilling unit as the proration unit for the well.

Special field rules adopted by the Commission on September 14, 1999, for the Casady (Strawn) Field provide for 40-acre proration units and impose a maximum diagonal limitation for proration units for wells in the field of 2,100 feet. The maximum diagonal for the proration unit for the Young No. 1 well is 2,289 feet. The Jones brothers recognized that on October 20, 1999, Ventex requested an exception to the maximum diagonal limitation for the proration unit for the Young No. 1 well, but asserted that there is no record to show that the exception was ever approved by the Commission.

The Jones brothers argued that in the event the Commission declines to find that the proration unit for the Young No. 1 well is the same as the 40-acre drilling unit for the well, the Commission should require Ventex to file a Form P-12, because the 40-acre proration unit depicted by the Ventex plat filed with the Commission on October 22, 1999, consists of acreage out of two separate tracts of land having different ownership, being the 320 acres in Section 26 and the 40 acres in Section 21. Because the Jones brothers own a slightly larger royalty interest in the 40-acre tract than in the 320-acre tract, consideration of the two tracts as a pooled unit would result in a small economic benefit to the Jones brothers.

The Jones brothers also complained that Ventex did not provide the Jones brothers with notice of the Ventex application filed on July 20, 1999, requesting that the Commission adopt permanent field rules for the Casady (Strawn) Field. They asserted that as of August 6, 1999, the date of the notice of hearing in the field rules docket [Oil & Gas Docket No. 7B-0222211] and as of September 14, 1999, the date of the Commission's Final Order adopting the permanent field rules, Ventex had no lease of the Jones brothers' mineral interest in the Young Lease. As unleased mineral interest owners, the Jones brothers asserted that they were entitled to notice of the field rules application. The Jones brothers stated that Ventex did not give them notice of the field rules application because Ventex knew the field rules being requested would have been opposed by the Jones brothers.<sup>1</sup>

### **Ventex's Evidence and Position**

Ventex asserted that the complaints of the Jones brothers are the latest in a series of groundless complaints the Jones brothers have filed with the Commission. Ventex asserted that: (1) The proration unit assigned to the Young No. 1 well, as reflected by the proration plat filed with the Commission on October 22, 1999, is entirely appropriate; (2) Ventex timely requested, and received administrative approval for, an exception to the maximum diagonal rule for the Young No. 1 well proration unit; (3) Ventex was not required to give the Jones brothers notice of the Ventex application for permanent field rules for the Casady (Strawn) Field, because the Jones brothers were not operators in the field; and (4) Ventex is not required to file a Form P-12, because, for the Commission's regulatory purposes, the Young Lease is one 360-acre lease, and Ventex did not pool interests in separate tracts to form the proration unit for the Young No. 1

---

<sup>1</sup> The rules governing the Casady (Strawn) Field prior to September 14, 1999, were County Regular rules providing for 20 acre density.

well.

On August 18, 1995, Ventex entered into an Oil, Gas & Mineral Lease with J. O. Young, Jr. and Loretta Young ("the Youngs"), covering the north 40 acres in the northeast quarter of Section 21. On August 23, 1995, Ventex entered into another Oil, Gas & Mineral Lease with the Youngs covering 320 acres, being the south one-half of Section 26. On October 31, 1995, Ventex gave a partial release to the Youngs of depths down to 3,000 feet on the southeast quarter of Section 26. On April 3, 1996, the Youngs gave Ventex a ratification of the August 23, 1995, mineral lease covering the 320 acres, being the south one-half of Section 26, and extended the primary term of the lease to August 24, 1996. On July 23, 1996, Ventex and the Youngs entered into a written agreement which amended the August 23, 1995, mineral lease (formerly covering 320 acres in Section 26) to include the 40 acres in Section 21 and to provide that the lease as amended covered all depths. This agreement ratified the mineral lease as a whole and had the effect of creating one 360-acre lease as to the Youngs' interest. This lease is currently in effect, being held by production.

On October 26, 1995, Ventex entered into Oil, Gas & Mineral Leases with the Jones brothers and their spouses covering the Jones' interest in 160 acres, being the southeast quarter of Section 26. On July 31, 1996, Ventex and the Jones brothers entered into a written agreement amending the October 26, 1995, mineral lease to include the 160 acres in the southwest quarter of Section 26 and the north 40 acres in the northeast quarter of Section 21. This agreement ratified the lease as a whole and extended the primary term. The effect of the agreement was to include the entire 360 acres under a single mineral lease as to the Jones' interest. On August 18, 1999, Ventex released to the Jones brothers all but 60 acres, being 20 acres assigned to the Reynolds No. 2 well and 40 acres assigned to the Young No. 1 well. This partial release was made pursuant to a retained acreage provision in the mineral lease with the Jones brothers permitting Ventex to retain, one year after expiration of the primary term of the lease, only that acreage assigned to producing wells.

On January 13, 2000, the Jones brothers signed another written agreement with Ventex ratifying and extending the primary term of the October 26, 1995, mineral lease as to the Jones' interest in the entire 360 acres, except as to depths down to 3,500 feet on all but the 60 acres retained by Ventex under the terms of the August 18, 1999, partial release. This agreement was made effective July 31, 1999, and again had the effect of making the Jones' interest in the entire 360 acres, except for the excluded depths, the subject of a single mineral lease to Ventex. For this agreement, the Jones were paid \$40,000.00 by Ventex. On January 11, 2000, the Jones brothers corresponded with the Commission withdrawing all complaints filed by the Jones brothers with the Commission relating to the Young (28071) Lease, Well Nos. 1 and 2 and all other complaints regarding the operations of Ventex.

On July 15, 2003, Ventex, pursuant to the retained acreage provision of the mineral lease, released to the Jones brothers, as to their mineral interest, all of the acreage except for the 60 acres assigned to the

Reynolds No. 2 well and the Young No. 1 well.

Ventex stated that since 1998, the Jones brothers have filed numerous complaints with the Commission regarding Ventex, usually contemporaneous with expiration of Ventex's lease of the

Jones interest in the Young Lease. Complaints made in the 1998-1999 era were dismissed after the Jones brothers withdrew the complaints.

A January 22, 1992, drilling title opinion shows, as to the entire 360-acre Young Lease, that: (1) the surface estate is owned by the Youngs; and (2) the mineral leasing rights are owned 25% by the Youngs and 75% by the Jones brothers. The mineral leasing rights ownership is common all across the 360 acres. The Youngs' royalty interest is one-fourth in the entire 360 acres. The Jones brothers each own a one-eighth royalty interest in the 320 acres in the south one-half of Section 26 and a 17/128th interest in the 40 acres in the northeast quarter of Section 21. There are some non-participating royalty owners who are not common as to the 320 acres in Section 26 and the 40 acres in Section 21.

The Jones brothers are being paid royalties on the production of the Young No. 1 well on a tract basis for the tract where the well is located and not on a pooled unit basis.

Ventex filed a Form W-1 (Application for Permit to Drill, Deepen, Plug Back, or Re-Enter) for the Young No. 1 well on October 31, 1996. The Form W-1 indicated that the well would be drilled on a 360-acre lease tract, not a pooled unit. The plat attached to the Form W-1 depicted a 40-acre drilling unit consisting entirely of acreage in the south one-half of Section 26. The drilling unit for the well did not include any acreage in Section 21. Ventex did not file a Form P-12 with the Form W-1. Ventex has not filed a declaration of pooled unit for the Young No. 1 well, and has not in any way treated the well as being on a pooled unit.

The examiners have officially noticed from Commission records that the Young No. 1 well was spudded by Ventex on December 23, 1996, and completed on January 20, 1997. The surface location of the well is 1,000 feet from the east line and 1,260 feet from the south line of the Young Lease and 1,000 feet from the east line and 600 feet from the south line of Section 26 of Block 18, T & P RR. Co. Survey, Taylor County, Texas.

Ventex asserted that when it filed plats for the 40-acre proration unit of the Young No. 1 after special field rules for the Casady (Strawn) Field were adopted, it was free to adopt a proration unit that differed from the drilling unit for the well. On October 22, 1999, Ventex filed with the Commission certified oil proration plats for the Young No. 1, Reynolds No. 1, and Reynolds No. 2 wells. The proration plat for the Young No. 1 well showed a 40-acre proration unit consisting of approximately 37 acres in the southeast quarter of Section 26 and approximately 3 acres in the northeast quarter of Section 21. The proration unit for the Young No. 1 was shown on the plat to have a maximum diagonal of 2,289 feet, and

the October 22, 1999, filing made by Ventex requested an exception to the maximum diagonal limitation of 2,100 feet in the special field rules adopted for the Casady (Strawn) Field.

Ventex agreed with the assessment of the Jones brothers that all the acreage included in the proration unit for the Young No. 1 well is productive acreage in the subject field. The Commission's Filing Procedures Manual states that an operator may request an exception to the distance limitations of the maximum diagonal rule, which may be administratively approved if all the acreage in the proration unit is considered productive. Ventex asserted that its request for an exception to the maximum diagonal limitation was approved administratively, because after the proration plat of the Young No. 1 well and Ventex's request for an exception were filed, the Commission continued to assign an allowable to the well.

Ventex requested the Commission to hold a hearing to consider permanent field rules for the Casady (Strawn) Field by letter dated July 19, 1999. The service list submitted by Ventex did not include the Jones brothers. Ventex asserted that the Commission requires that notice of applications for permanent field rules be provided only to operators in the field. At the time of the filing of the Ventex application for permanent field rules, Ventex and The Townsend Co. were the only operators in the field, and notice was given to Townsend.

Ventex requested that the complaint of the Jones brothers be dismissed.

### **EXAMINERS' OPINION**

#### **(a) Proration Unit/Drilling Unit**

Ventex is not required to conform the proration unit for the Young No. 1 well to the same 40 acres assigned by Ventex to the drilling unit for the well. The Young No. 1 was drilled in 1996. A proration plat for the well was not required until after the Commission adopted special field rules for the Casady (Strawn) Field on September 14, 1999. The Commission historically has allowed the configuration of proration units to be changed at any time, without notice or approval, by the filing of an amended Form P-15 (Statement of Productivity of Acreage Assigned to Proration Units). There is no Commission rule requiring that the proration unit for a well be confined to the same acreage assigned to the drilling unit for the well.

Ventex properly filed a proration plat for the Young No. 1 well on October 22, 1999, and thereafter the Commission continued to assign an allowable to the well. Both Ventex and the Jones brothers agree that all the acreage assigned by Ventex to the proration unit for the Young No. 1 well is productive in the Casady (Strawn) Field. Ventex has established that it has at least a good faith claim of a current right to operate all of the acreage assigned to this proration unit by virtue of currently effective mineral leases with the Youngs and the Jones brothers. The examiners conclude that the Jones brothers' complaint that the proration unit for the Young No. 1 well should be conformed to the same 40 acres in the drilling unit for the well is without legal foundation.

**(b) Maximum Diagonal**

The Jones brothers' complaint that the proration unit for the Young No. 1 well violates the maximum diagonal limitation in special field rules for the Casady (Strawn) Field is likewise lacking in merit. The maximum diagonal limitation in special field rules specifies the maximum distance allowed between the two most distant points of a proration unit, and has the purpose of helping to assure that only productive acreage is assigned to a well's proration unit. Exceptions to the maximum diagonal rule traditionally have been approved administratively upon a certification that all acreage within the proration unit for a well is reasonably considered to be productive.

The maximum diagonal limitation in special field rules for the Casady (Strawn) Field is 2,100 feet, the standard diagonal for 40-acre proration units. The maximum diagonal for the proration unit assigned by Ventex to the Young No. 1 well is 2,289 feet. However, Ventex filed a request for an exception to the maximum diagonal limitation on October 22, 1999, stating that all of the acreage in the proration unit for the Young No. 1 well was productive in the Casady (Strawn) Field, and the examiners conclude that the exception was approved administratively. The Commission accepted Ventex's proration plat for the Young No. 1 well showing the maximum diagonal of 2,289 feet, and thereafter continued to assign an allowable to the well, which the Commission would not have done if the proration unit had been found to be objectionable or if the requested exception to the maximum diagonal limitation had not been approved administratively.

**(c) Certificate of Pooling Authority**

The Jones brothers did not prove that Ventex is required to file a Form P-12 for the proration unit of the Young No. 1 well. Statewide Rule 40 requires filing of a Form P-12 to designate a pooled unit formed after completion paperwork has been filed when the pooled unit's acreage is being used or assigned for allowable purposes. The instructions for Form P-12 indicate that the form is to be filed when two or more tracts are pooled. The evidence does not establish that Ventex has pooled interests in separate tracts in order to form the proration unit for the Young No. 1 well.

The Youngs and the Jones brothers collectively own 100% of the executive rights in the 360 acres comprising the Young Lease. As to the mineral estate, the Youngs' interest is uniform throughout the 360 acres and throughout the 40-acre portion of the 360 acres that forms the proration unit for the Young No. 1 well. By reason of the July 23, 1996, agreement between the Youngs and Ventex, the Youngs' interest in the entire 360 acres is covered by a single mineral lease to Ventex.

The Jones brothers own a slightly larger royalty interest in the 40 acres in Section 21 than they do in the 320 acres in the south one-half of Section 26. The effect of the July 31, 1996, agreement, and the subsequent agreement signed January 13, 2000, and made effective July 31, 1999, was to make the interest of the Jones brothers in the entire 360 acres comprising the Young Lease subject to a single mineral

lease to Ventex. On July 15, 2003, Ventex released to the Jones brothers all but 60 acres, comprised of the 40-acre proration unit for the Young No. 1 well and 20 acres assigned to the pooled unit for the Reynolds No. 2 well, but the acreage retained by Ventex continues to be covered by a single mineral lease. There are some differences in ownership of nonparticipating royalty interests in the 40 acres in Section 21 as compared to the 320 acres in Section 26 but there is no evidence that these interests are being pooled by Ventex.

The Commission cannot require Ventex to file a Form P-12 (Certificate of Pooling Authority) for the simple reason that it has not been proven that Ventex is pooling any lands in connection with its operation of the Young No. 1 well. If the Jones brothers are dissatisfied with the basis on which they are being paid royalties, they are required to seek relief in a judicial forum.

**(d) Field Rules**

Special field rules for the Casady (Strawn) Field have been in effect since September 14, 1999. The Jones brothers complained that Ventex did not provide notice to the Jones brothers when it filed its application for permanent field rules. The Jones brothers claimed that Ventex's lease of the Jones brothers' interest in the Young Lease had expired on July 31, 1999, prior to the date of the notice of hearing on Ventex's application for permanent field rules, and because they were unleased mineral interest owners, they were entitled to notice.

Traditionally, when temporary field rules are being converted into permanent field rules, the Commission has required notice only to operators in the field. Statewide Rule 43 implies that notice of applications for establishment of temporary field rules is to be given to all operators holding leases on land touching the discovery well tract and owners of abutting unleased land. The rule is silent, however, on the question of whether unleased mineral interest owners are entitled to notice of applications to establish permanent field rules in the case where there have been no preceding temporary field rules. Notice of the Ventex application to establish permanent field rules for the Casady (Strawn) Field was given to operators in the field, and apparently to some mineral owners, although not to the Jones brothers.

The evidence shows that on July 19, 1999, when Ventex filed its application for permanent field rules and furnished the Commission with a list of parties to be served with notice, Ventex's lease with the Jones brothers was still in effect. On January 13, 2000, Ventex and the Jones brothers signed an agreement ratifying Ventex's lease of the Jones brothers' interest in the Young Lease acreage, and the agreement was made effective July 31, 1999. By signing this agreement, the Jones brothers effectively waived any contention that they were unleased mineral interest owners in the Young Lease acreage between July 31, 1999, and January 13, 2000. From the present perspective, Ventex represented the interest of the Jones brothers for the Commission's regulatory purposes during the entire period when the Ventex application for permanent field rules was filed, when the notice of hearing was issued, and when the field rules were adopted. This forecloses any present argument by the Jones brothers that, as unleased

mineral owners, they should have been provided with notice of the Ventex application for permanent field rules.

**(e) Conclusion**

The Jones brothers failed to show that they are entitled to any of the relief sought in their complaint. Accordingly, the examiners conclude that the complaint should be dismissed. Based on the record in this case, the examiners recommend that the following Findings of Fact and Conclusions of Law be adopted.

**FINDINGS OF FACT**

1. At least ten (10) days notice of the hearing in this docket was sent to all parties entitled to notice. Richard W. Jones and Jerry R. Jones ("Jones brothers"), Complainants, and Ventex Operating Corp. ("Ventex"), Respondent, appeared and presented evidence.
2. By their complaint, the Jones brothers requested the Commission:
  - a. to recognize and approve a proration unit for the Young Lease, Well No. 1, Casady (Strawn) Field, Taylor County, Texas, conforming to the 40-acre drilling unit shown on the plat submitted with the Form W-1 (Application for Permit to Drill, Deepen, Plug Back, or Re-Enter) for a drilling permit for the well filed with the Commission on October 31, 1996;
  - b. to find that the 40-acre proration unit for the Young Lease, Well No. 1 as represented on the proration plat for the well filed with the Commission on October 22, 1999, violates the maximum diagonal limitation in special field rules for the Casady (Strawn) Field;
  - c. in the alternative, to require Ventex to file a Form P-12 (Certificate of Pooling Authority); and
  - d. to find that permanent field rules for the Casady (Strawn) Field were adopted without proper notice to the Jones brothers.
3. A Form W-1 (Application for Permit to Drill, Deepen, Plug Back, or Re-Enter) seeking a drilling permit to drill the Young Lease, Well No. 1 was filed with the Commission on October 31, 1996. This Form W-1 represented that the well was to be drilled on the 360-acre Young Lease and not on a pooled unit. No Form P-12 was filed with the Form W-1.
4. A plat attached to the Form W-1 filed on October 31, 1996, depicted a 40-acre drilling unit for the Young No. 1 well consisting of acreage out of the south one-half of Section 26 of Block 18 of

the T & P RR Co. Survey in Taylor County, Texas.

5. The Young No. 1 well was spudded by Ventex on December 23, 1996, and completed on January 20, 1997. The surface location of the well is 1,000 feet from the east line and 1,260 feet from the south line of the Young Lease and 1,000 feet from the east line and 600 feet from the south line of Section 26 of Block 18 of the T & P RR Co. Survey, Taylor County, Texas.
6. On July 20, 1999, Ventex filed with the Commission a request that a hearing be scheduled to adopt permanent field rules for the Casady (Strawn) Field. This application was docketed as Oil & Gas Docket No. 7B-0222211, and a notice of hearing was issued on August 6, 1999. Notice was given to all operators in the field. A hearing was held on August 25, 1999, and on September 14, 1999, the Commission issued a Final Order adopting permanent field rules for the subject field.
  - a. The field rules provide for spacing of 467 feet to any property line, lease line or subdivision line and 1,200 feet between wells applied for or permitted or completed in the same reservoir on the same lease, pooled unit or unitized tract.
  - b. The field rules provide for 40-acre drilling and proration units.
  - c. The field rules include a maximum diagonal limitation for proration units of 2,100 feet.
7. On October 22, 1999, Ventex filed with the Commission a certified proration plat for the Young No. 1 well and a request for an exception to the maximum diagonal limitation of the field rules for the Casady (Strawn) Field.
  - a. The 40-acre proration unit for the well includes approximately 37 acres in the southeast quarter of Section 26 and approximately 3 acres in the northeast quarter of Section 21.
  - b. The maximum diagonal for the well's proration unit is 2,289 feet.
8. All of the acreage in the 40-acre proration unit assigned by Ventex to the Young No. 1 well is productive in the Casady (Strawn) Field.
9. The Ventex request for an exception to the maximum diagonal limitation of the field rules for the proration unit of the Young No. 1 well was approved administratively by the Commission.
  - a. The certified proration plat filed on October 22, 1999, was accepted for filing by the Commission.
  - b. Following the filing of the certified proration plat and the request for an exception to the

maximum diagonal rule, the Commission continued to assign an allowable to the well.

10. On January 22, 1992, Ventex obtained a drilling title opinion covering the 360-acre Young Lease.
  - a. The mineral leasing rights are owned 25% by J. O. Young, Jr., and Loretta Young (“the Youngs”) and 75% by the Jones brothers.
  - b. The mineral leasing rights ownership is common across the 360 acres.
  - c. As to the royalty interest, the Youngs’ interest is one-fourth in the entire 360 acres.
  - d. The Jones brothers each own a one-eighth royalty interest in 320 acres, being the south one-half of Section 26 and a 17/128th interest in 40 acres in the northeast quarter of Section 21, in Block 18, T & P RR. Co. Survey, Taylor County, Texas.
  - e. There are some non-participating royalty owners who are not common as to the 320 acres in Section 26 and the 40 acres in Section 21.
11. Ventex has a currently effective lease of the mineral interest owned by the Youngs in 360 contiguous acres of land, comprised of 320 acres constituting the south one-half of Section 26 and 40 acres in the northeast quarter of Section 21, in Block 18 of the T & P RR. Co. Survey, Taylor County, Texas.
  - a. On August 18, 1995, Ventex entered into an Oil, Gas & Mineral Lease with the Youngs covering the 40 acres in Section 21.
  - b. On August 23, 1995, Ventex entered into an Oil, Gas & Mineral Lease with the Youngs covering the 320 acres in Section 26.
  - c. On July 23, 1996, following a partial release in October 1995, and a ratification in April 1996, Ventex and the Youngs entered into a written agreement which amended the August 25, 1995, mineral lease (formerly covering 320 acres in Section 26) to include the 40 acres in Section 21. This agreement ratified the mineral lease and had the effect of creating one 360-acre lease as to the Youngs’ interest.
12. Ventex has a currently effective mineral lease of the mineral interest owned by the Jones brothers in a total of 60 acres of land, comprised of approximately 57 acres in the southeast quarter of Section 26 and approximately 3 acres in the northeast quarter of Section 21 in Block 18 of the T & P RR. Co. Survey, Taylor County, Texas.

- a. On October 26, 1995, Ventex entered into an Oil, Gas & Mineral Lease with the Jones brothers and their spouses covering the Jones brothers' interest in 160 acres, being the southeast quarter of Section 26.
  - b. On July 31, 1996, Ventex and the Jones brothers entered into a written agreement amending the October 26, 1995, mineral lease to include 160 acres in the southwest quarter of Section 26 and 40 acres in the northeast quarter of Section 21. This agreement ratified the lease as a whole, extended the primary term, and had the effect of including the entire 360 acres in a single mineral lease as to the Jones' interest.
  - c. On August 18, 1999, Ventex released to the Jones brothers all but 60 acres, being 20 acres assigned to the pooled unit for the Reynolds No. 2 well and 40 acres assigned to the Young No. 1 well. This partial release was made pursuant to a retained acreage provision in the mineral lease with the Jones brothers permitting Ventex to retain, one year after expiration of the primary term of the lease, only that acreage assigned to producing wells.
  - d. On January 13, 2000, the Jones brothers signed another written agreement with Ventex ratifying and extending the primary term of the October 26, 1995, mineral lease as to the Jones brothers' interest in the entire 360 acres, excluding depths down to 3,500 feet on all but 60 acres. This agreement was made effective July 31, 1999.
  - e. On July 15, 2003, pursuant to the retained acreage provision of the mineral lease, Ventex released to the Jones brothers all of the acreage except for the 60 acres consisting of 20 acres assigned to the pooled unit for the Reynolds No. 2 well and 40 acres assigned to the Young No. 1 well.
13. Ventex had an effective lease of the Jones brothers' mineral interest in the Young Lease at the time of filing of Ventex's application for permanent field rules for the Casady (Strawn) Field on July 20, 1999. The agreement between Ventex and the Jones brothers signed on January 13, 2000, made Ventex's lease of the Jones brothers' mineral interest in the Young Lease effective during the entire time when notice of hearing of the field rules application was issued, when the hearing was held, and when the field rules were adopted by Final Order of the Commission.
  14. Ventex has not filed a declaration of pooled unit regarding any of the acreage assigned to the proration unit for the Young No. 1 well and has not treated the Young No. 1 well as if it were on a pooled unit. The Jones brothers are paid royalties on production of the Young No. 1 well on a tract basis for the tract where the well is located and not on a pooled unit basis.

**CONCLUSIONS OF LAW**

1. Proper notice of hearing was timely given to all persons legally entitled to notice.
2. All things have occurred and been accomplished to give the Commission jurisdiction to decide this matter.
3. Ventex has a good faith claim of a current right to operate the 360-acre Young Lease, including the acreage within the 40-acre proration unit for the Young No. 1 well.
4. The proration unit assigned by Ventex to the Young No. 1 well conforms to field rules for the Casady (Strawn) Field and other Commission rules.
5. At the time of filing of the Ventex application to establish permanent field rules for the Casady (Strawn) Field, and as of the dates of the notice of hearing, hearing, and Commission Final Order in Oil & Gas Docket No. 7B-0222211, for the Commission's regulatory purposes the interests of the Jones brothers were represented by Ventex pursuant to effective mineral leases.
6. Proper notice was given by the Commission to all persons entitled to notice of the application of Ventex to establish permanent field rules for the Casady (Strawn) Field.
7. The Jones brothers did not prove that Ventex is required to file with the Commission a Form P-12 (Certificate of Pooling Authority) with respect to the proration unit for the Young No. 1 well.
8. The complaint of the Jones brothers in this docket should be dismissed with prejudice.

**RECOMMENDATION**

The examiners recommend that the complaint of the Jones brothers in this docket be dismissed with prejudice and that the attached order be entered.

Respectfully submitted,

James M. Doherty  
Hearings Examiner

Margaret Allen  
Technical Examiner

